

Executive Summary

Board of Governors Meeting, December 16, 2020

THE OFFICE OF THE INTERNAL AUDITOR

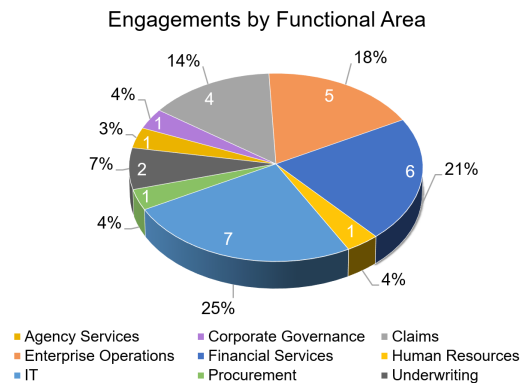
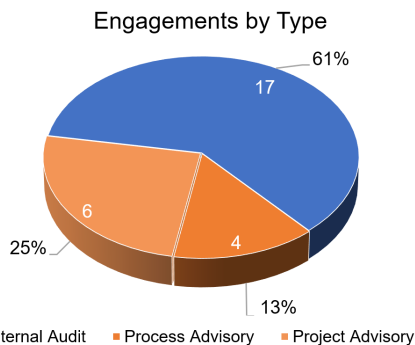
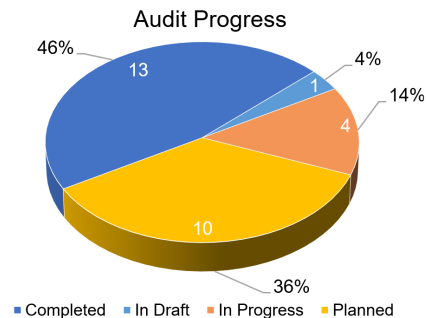
At the Audit Committee meeting, the Chief of Internal Audit noted satisfactory progress against the 2020 plans for audit, internal control, and enterprise risk.

Internal Audit

Overview of Audit Progress

Internal Audit (IA) follows a risk-based quarterly rolling plan approach in developing engagements and monitoring progress. As we review risks and consider operational challenges, we re-examine our plan and confirm that it continues to provide the expected assurance and that audit resources remain appropriately focused.

Internal Audit Plan (July 1, 2020 to June 30, 2021)	
Completed	13
In Draft	1
In Progress	4
Planned	10
Total Projects	28



Audit Engagements Completed

Following the last meeting we completed work on five audit engagements:

- Centerpoint Role Redesign Implementation** - Past internal audits noted instances of inadequate segregation of duties and excessive access permissions that were not adequately monitored. In response to these audit findings, Citizens contracted a vendor with extensive Oracle Fusion Cloud Applications experience to verify and validate the implementation and configuration of specific Centerpoint roles, recommend custom roles and assist in the design of the custom roles. Internal Audit tested the redesigned and new roles to provide reasonable assurance that the changes addressed the controls issues noted in the prior audits. We found

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that roles had been adjusted to align with segregation of duties or management reporting remains in place for appropriate monitoring.

- **Claims Payment Platform** - With this engagement, IA provided advisory services in support of the project through consultative advice related to controls of project management, as well as confirmed the effective and timely escalation and handling of project issues. The scope of work also included a review of user access and permissions developed during the project, as well as 3rd party vendor controls.
- **Identity and Access Management** - With this engagement, IA provided risk and controls advice as the multi-year project progresses. Overall, we noted that adequate processes are in place to support and ensure the effective completion of the project. The project governance structure is designed well, the project is on target in accordance with the timeline defined in the Implementation Roadmap, standard control processes were used in system implementations and a process enhancement related to change management for cloud services was provided to management for consideration.
- **OFAC (Office of Foreign Assets Control)** – IA evaluated current OFAC screening practices and procedures and to assess the effectiveness of the program against a framework for OFAC compliance published by the Department of Treasury. Results from our audit work indicated that Citizens procured and has access to an OFAC compliance software platform which is used to screen third parties against OFAC's most up-to-date and accurate SDN (Specially Designated Nationals) listings. When compared with recorded leading practices, published whitepapers and guidance provided by the framework for OFAC compliance published by the Department of Treasury, we assessed that there is an opportunity to improve and strengthen Citizens' current screening practices, governance, and control activities to ensure comprehensive OFAC screening is conducted going forward. Specifically, OIA identified an opportunity to expand current pre-screening (screening of 3rd parties before the transaction occurs) and ongoing/periodic screening of 3rd parties in Citizens. Additionally, OIA identified that there is an opportunity to provide an enhanced governance structure around OFAC compliance at Citizens by developing and maintaining a written OFAC Sanctions Compliance Program (SCP).
- **Third Party Risk Management** - Internal audit evaluated the design effectiveness of Citizens' third-party risk management process and found the process to be designed effectively to adequately manage third-party related risks. The third-party risk management activities and tools used to manage contracts and third parties, coupled with the key roles and responsibilities related to managing third-party providers, creates a robust process to provide effective risk management. Additionally, Internal Audit found the process to be mostly proactive with several optimized activities based on a maturity model used to measure Citizens. Finally, Internal Audit found that Citizens takes fourth-party risks into consideration and addresses these appropriately.

Work in Progress

There are 5 audit engagements in progress:

- **Centerpoint Configuration Audit** - Centerpoint (Oracle Fusion) module configuration is generally complex. IA will confirm that modules are properly configured to restrict access appropriately.

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- **Contingent Workforce Audit** - Citizens leverages temporary contingent workers as needed for a variety of operational reasons. IA will evaluate the adequacy and effectiveness of current policies, practices, and controls to ensure an effective management program is in place.
- **Commercial Underwriting Compliance Advisory** - IA will assess the adequacy and effectiveness of controls in place to meet State of Florida Statutory underwriting requirements.
- **E-disbursements Advisory** - Provide consultative project advice during design and implementation to assess the security of ACH transactions.
- **IT Security & Risk Incident Response Exercise Advisory** - Internal Audit was asked to participate in the exercise, managed by IT Security and Risk, and provide feedback regarding the attainment of exercise objectives.

Work Planned

The following audit engagements are scheduled to commence in early 2021:

- **Accounts Payable Audit** - With the recently implemented system enhancements in the financial module of Oracle's integrated ERP solution (Centerpoint), there is an opportunity for IA to evaluate the accounts payable process and related controls.
- **Application and Infrastructure Standards and Conformance Audit** - Review elevated risk applications and infrastructure components against IT Security and hardening standards to validate compliance.
- **Appraisal Process Audit** - Appraisals form a central part of the claim's settlement process and with this audit IA will evaluate the adequacy and effectiveness of controls functions.
- **Claims Litigation File Review Audit**- IA will perform a detailed study of Citizens' Litigation Management process (including matter management) and compare to leading practices.
- **Claims Litigation Management System Procurement & Implementation Project Advisory** - IA will participate in the project team and provide process, risk, and controls advice for the implementation of the Claims Litigation Management System.
- **Cloud Migration Program Advisory** - IA will provide insight related to risks and controls associated with migration of applications and infrastructure to cloud services.
- **Commissions** - IA will evaluate whether controls associated with commission rates and calculations are effective and ensure that commissions paid to agents are accurate, authorized, and timely.
- **Escheatment Audit** - Citizens is required to record and turn over unclaimed property (money due customers from uncashed checks) to relevant states after a certain period. IA will evaluate the adequacy of processes and control functions.
- **Identity and Access Management Project Advisory** - Assess project governance and progress for the multi-year implementation of an identity and access management solution and provide advice throughout the project as needed.
- **Logging and Monitoring Audit** – Assess the implementation of system and application logging and monitoring to ensure that operational and security risks have been identified, corresponding logging practices have been implemented and appropriate event monitoring is occurring. We will also validate that logging fully supports the incident response process.

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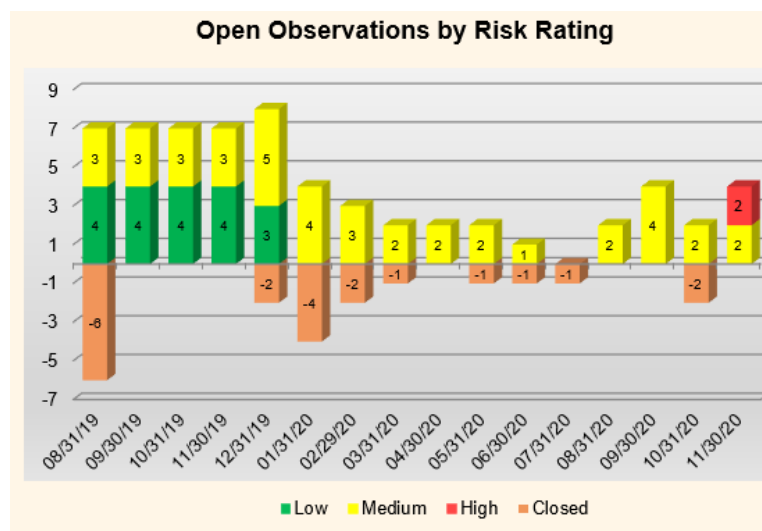
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- **Underwriting Staffing Analysis Advisory** - IA was requested to participate in Enterprise Operations' analysis of current underwriting staffing models and provide advice and project support where appropriate.

Control Deficiency Resolution

Internal Audit (IA) maintains a database containing reported audit observations, recommendations, management action plans and target completion dates originating from IA audits, reviews performed by the external auditors and regulatory exams conducted by the Office of Insurance Regulation and the Auditor General. Open items receive priority focus from management and are generally addressed within an agreed period. We are currently tracking 4 open observations of which 2 are rated as high impact. Both high rated open items relate to the recent OFAC (Office of Foreign Assets Control) completed by Internal Audit and focus mainly on developing a formal OFAC Sanctions Compliance Program and tightening the OFAC screening practices at Citizens.

The chart below provides information on the number of current open observations over a period including the observation ratings, source of observation and year reported.



Observations by Year Reported		
2019	2020	TOTAL
0	4	4

Observation Source	
IA	4
External Auditor	0
Market Conduct - OIR	0
Auditor General	0
Total	4

Internal Control

The Internal Controls team (IC) is responsible for maintaining and monitoring Citizens' Internal Control Framework. A key component of the framework is the annual control self-assessments performed by management to validate the effectiveness of primary controls. In Q4, IC coordinated, monitored, and provided guidance to Control Champions and management in the completion of the annual control self-assessments.

During 2020, 131 primary controls were identified and recorded across 71 business processes:

- The number of primary controls slightly increased from 128 as previously reported, to 131 as additional controls were identified in IC quality reviews and operational risk assessments.

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- Management control self-assessments will be performed for 110 primary controls. Some business areas have already completed their control self-assessments and the remaining areas are on track for completion by year-end.
- The remaining 21 primary controls are excluded from management control self-assessments as IC is scheduled to perform a refresh of these processes.
- The IC team and Control Champions from the business areas collaborate to ensure that the control assessments continue to add value, improve processes, and strengthen Citizens' internal control environment. The 2020 aggregate control assessment results will be reported in Q1.

Enterprise Risk

Enterprise Risk (ER) facilitates, enables, and partners with business areas to deliver forward-looking and insightful risk perspectives that enhance the decision-making process and strategic performance of Citizens through:

- **Strategic Risk Assessments** - Mitigation plans continue to be monitored and executed as necessary for the 18 strategic risks that were identified in 2020.
- **Operational Risk Assessments** - As of the end of November, a total of 381 operational risks have been identified and assessed across the organization. Risks are periodically updated through ER facilitated sessions and input from Risk Champions. The total number of operational risks fluctuate as risks are added, removed, and consolidated.
- **Project and Scenario-Based Risk Assessments** – ER, in partnership with various business areas, continues to make progress in leveraging the ERM framework to support risk informed decision making. At the request of business area leaders, ER facilitated cross-functional risk assessments for *Commercial Lines Underwriting (CL UW) Scalability*, and *Market Conditions and Policy Growth*.

2020 OIA Strategy & Plan

The OIA presents, for review and approval, its 2021 Strategy and Plan (Plan). The Plan was developed using a risk-based approach to understand and assess Citizens' operations and associated risks. Additional consideration was given for future work to be conducted by the Auditor General, Market Conduct Examinations, and planned strategic initiatives.

The objective of this plan is to provide the most timely and comprehensive scope of audit, risk, and control coverage by using resources available to the OIA. Since it is impractical to provide risk and control coverage to the entire corporation on an annual basis, we collaborated with business unit leadership to determine the best focus areas for Internal Audit, Enterprise Risk and Internal Control given current circumstances.

Internal Audit

IA follows a detailed annual planning process and prepares a themes-based audit plan which considers the possibility of dynamic risk fluctuations and process changes throughout the year. This necessitates regular re-evaluation of audit approach and scope so that appropriate audit focus is always given to important strategic and operational issues and risks. Throughout the year, the audit plan continuously evolves to support our dynamic risk environment, focusing on current and

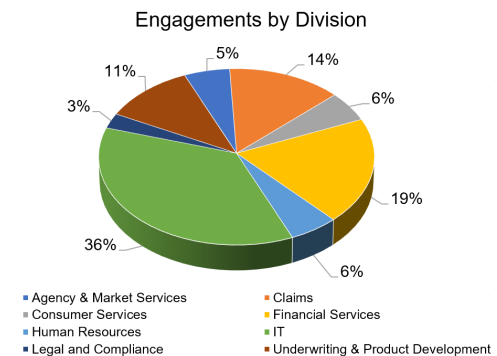
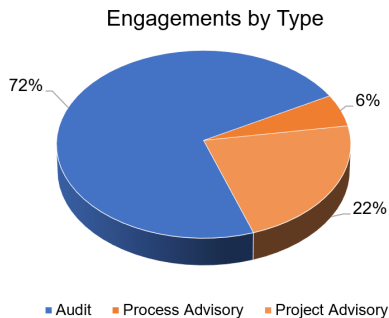
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emerging reputational, compliance, operational, information technology and financial risks. To achieve the greatest impact, IA “rebalances” internal audit activities in a rolling audit plan to ensure adequate focus is given to Citizens’ strategic issues and critical processes.

IA documented seven (7) specific audit themes which consolidate and provide high-level insights into the years’ audit focus areas. As the year progresses IA will use its quarterly rolling risk assessment process to identify engagements to be selected for every reporting period.

In identifying the types of audit engagements IA invited management requests for consultative support and ensures that there is a healthy balance between assurance (audit) engagements and consulting (advisory) engagements. This plan includes 72% audit and 28% advisory type engagements. We also focus on every division within the organization and ensure that there is a healthy coverage throughout Citizens as a whole.



Enterprise Risk

For 2021 ER will continue to facilitate and enable risk assessments from five different perspectives, namely: strategic, operational, fraud, project and scenario.

- Strategic risk - ER will facilitate a strategic risk workshop with the ELT to identify and assess the 2021 strategic risks. Comprehensive mitigation plans will be documented and executed, as necessary.
- Operational risk - ER facilitates interactive operational risk assessments that enable Risk Champions and management to self-identify and assess risks that may impact the ability to achieve business objectives. Risks are updated periodically as needed.
- Fraud risk - ER will include fraud risk discussions in the facilitated operational risk assessments as a tool for management to identify and assess risks to businesses processes that may present potential fraud risks to the organization. ER will collaborate with the OIA Forensics Team and SIU on this initiative.
- Project & scenario risk - Upon request, ER provides facilitation services and consultative support through project and scenario risk assessments. The risk assessment discussions assist management in identifying risks that should be closely monitored and additional controls that should be considered or implemented.

In support of the abovementioned risk assessments, ER will, as part of the OIA GRC procurement, implement an enterprise risk management system solution that will: provide scalability, efficiency, and a holistic view for the several types of risk assessments; enable risk champions and

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management to self-identify, evaluate, record, and manage risks; and enhance ER's ability to provide management with real-time risk reporting capabilities.

Internal Control

In 2021, IC will continue to ensure consistency and sustainability of ICF throughout the organization while expanding consultative services to include advice on anti-fraud controls. IC will specifically focus on:

- Annual Control Self-Assessments - Control self-assessments (CSAs) are performed annually by management to validate the effectiveness of primary controls.
- Process Narratives - The narratives document the business objectives, process flows, key systems, and primary and mitigating controls. Management periodically updates the narratives and flowcharts to reflect any changes in processes, technology, and controls.
- Quality Reviews - Quality reviews are performed by IC to ensure that business areas with primary controls adhere to Citizens' ICF standards when performing the CSAs. The quality reviews are performed on a recurring 3-year cycle consisting of annual reviews of approximately one third (1/3) of the processes with primary controls.
- Anti-Fraud Controls - As the operational risk assessments are expanded to include fraud risks, IC will collaborate with ER, OIA Forensics, and SIU to provide consultative advice to the business areas regarding leading practices on internal controls to prevent and detect fraud.

In support of the abovementioned initiatives IC will, also as part of the OIA GRC procurement, implement an internal controls management system solution that will provide a centralized repository for ICF process narratives and flowcharts and also leverage control information across the solution to deliver a more efficient alignment of controls to risks.

2021 OIA Budget

The 2021 budget for Citizens' OIA was presented and was approved at \$3.33 million as compared to \$3.06 million budgeted for 2020. Specific budget changes were discussed and agreed with the committee.

Action Item - GRC SOFTWARE SERVICES

The GRC system will integrate the management and administration of the Office of Internal Audit's (OIA) three complementary assurance functions, namely Internal Audit; Enterprise Risk Management; and Internal Control Monitoring.

Currently, IA uses TeamMate + provided by Wolters Kluwer Financial Services, Inc. TeamMate was procured in 2015 and will reach the end of its original 5-year term at the end of 2020. ER uses Resolver Inc.'s Risk Management Software. Resolver Risk was procured during 2017 and IC uses a combination of Word/Excel/Visio to maintain the Internal Control Framework, which has proven to be inefficient and time-consuming.

On May 21, 2020, Citizens issued Invitation to Negotiate (ITN) No. 20-0018 for the procurement of an integrated GRC system. On October 7, 2020, following negotiations and receipt of Best and Final

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Offers, the Citizens negotiation team recommended an award to AuditBoard, Inc. as the primary vendor, and to MetricStream, Inc. as a contingent vendor if the contract with AuditBoard cannot be finalized.

This new contract will provide a single integrated source for internal audit, enterprise risk and internal control as opposed to the segregated tools we use now. The single integrated tool will house all three applications and will provide compatible workflows, advanced reporting, self-service, and ease of use.

The AuditBoard contract will have a five (5) year base term and four (4) one (1) year optional renewal terms. The contract amount of \$1,700,000 consists of the following:

- \$87,000 for Implementation Services (one-time fee);
- \$763,100 for Base Term Subscription Fee (\$152,620 per year);
- \$671,528 for Renewal Term Subscription Fees (\$167,882 per year); and
- \$178,378,372 in Contingency Funds, including additional costs if usage exceeds current estimates as follows:
 - SoxHub Module (includes 250 tested controls; additional cost will be \$2500 per year for 50 additional controls);
 - OpsAudit (includes 50 Audits; additional cost will be \$5500 per year for 10 additional audits); and
 - RiskOversight (includes 1,000 Risks; additional cost will be \$5000 per year for 100 additional risks).

The authorized contract amount of \$1,700,000 may be transferred to the contingent contract with MetricStream, if necessary, with the understanding that the amount spent on the two contracts will not exceed \$1,700,000 over the nine-year authorized term.

Recommendation

Staff recommends that the Citizens Board of Governors:

- a) Approve the recommendation of a contract to AuditBoard, Inc. as the primary vendor for a GRC Software Solution, at an amount not to exceed \$1,700,000 over a 5-year base term and four 1-year optional renewal terms, and to MetricStream, Inc. as a contingent vendor, as set forth in the Action Item; and
- b) Authorize staff to take appropriate or necessary action consistent with this Action Item.